

## Federal Reserve System

## § 217.30

investment in the investment fund by either:

(1) The highest stated investment limit (in percent) for investments in the Board-regulated institution's own capital instruments or the capital of unconsolidated financial institutions as stated in the prospectus, partnership agreement, or similar contract defining permissible investments of the investment fund; or

(2) The investment fund's actual holdings of own capital instruments or the capital of unconsolidated financial institutions.

(iv) For a synthetic exposure, the amount of the Board-regulated institution's loss on the exposure if the reference capital instrument were to have a value of zero.

(3) *Adjustments to reflect a short position.* In order to adjust the gross long position to recognize a short position in the same instrument, the following criteria must be met:

(i) The maturity of the short position must match the maturity of the long position, or the short position has a residual maturity of at least one year (maturity requirement); or

(ii) For a position that is a trading asset or trading liability (whether on- or off-balance sheet) as reported on the Board-regulated institution's Call Report, for a state member bank, or FR Y-9C, for a bank holding company or savings and loan holding company, as applicable, if the Board-regulated institution has a contractual right or obligation to sell the long position at a specific point in time and the counterparty to the contract has an obligation to purchase the long position if the Board-regulated institution exercises its right to sell, this point in time may be treated as the maturity of the long position such that the maturity of the long position and short position are deemed to match for purposes of the maturity requirement, even if the maturity of the short position is less than one year; and

(iii) For an investment in the Board-regulated institution's own capital instrument under paragraph (c)(1) of this section or an investment in a capital of an unconsolidated financial institution under paragraphs (c)(4), (c)(5), and (d)(1)(iii) of this section.

(A) A Board-regulated institution may only net a short position against a long position in the Board-regulated institution's own capital instrument under paragraph (c)(1) of this section if the short position involves no counterparty credit risk.

(B) A gross long position in a Board-regulated institution's own capital instrument or in a capital instrument of an unconsolidated financial institution resulting from a position in an index may be netted against a short position in the same index. Long and short positions in the same index without maturity dates are considered to have matching maturities.

(C) A short position in an index that is hedging a long cash or synthetic position in a Board-regulated institution's own capital instrument or in a capital instrument of an unconsolidated financial institution can be decomposed to provide recognition of the hedge. More specifically, the portion of the index that is composed of the same underlying instrument that is being hedged may be used to offset the long position if both the long position being hedged and the short position in the index are reported as a trading asset or trading liability (whether on- or off-balance sheet) on the Board-regulated institution's Call Report, for a state member bank, or FR Y-9C, for a bank holding company or savings and loan holding company, as applicable, and the hedge is deemed effective by the Board-regulated institution's internal control processes, which have not been found to be inadequate by the Board.

[Reg. Q, 78 FR 62157 and 62285, Oct. 11, 2013, as amended at 78 FR 62287, Oct. 11, 2013]

### §§ 217.23–217.29 [Reserved]

## Subpart D—Risk-Weighted Assets—Standardized Approach

### § 217.30 Applicability.

(a) This subpart sets forth methodologies for determining risk-weighted assets for purposes of the generally applicable risk-based capital requirements for all Board-regulated institutions.

(b) Notwithstanding paragraph (a) of this section, a market risk Board-regulated institution must exclude from its

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calculation of risk-weighted assets under this subpart the risk-weighted asset amounts of all covered positions, as defined in subpart F of this part (except foreign exchange positions that are not trading positions, OTC derivative positions, cleared transactions, and unsettled transactions).

### RISK-WEIGHTED ASSETS FOR GENERAL CREDIT RISK

#### §217.31 Mechanics for calculating risk-weighted assets for general credit risk.

(a) *General risk-weighting requirements.* A Board-regulated institution must apply risk weights to its exposures as follows:

(1) A Board-regulated institution must determine the exposure amount of each on-balance sheet exposure, each OTC derivative contract, and each off-balance sheet commitment, trade and transaction-related contingency, guarantee, repo-style transaction, financial standby letter of credit, forward agreement, or other similar transaction that is not:

(i) An unsettled transaction subject to §217.38;

(ii) A cleared transaction subject to §217.35;

(iii) A default fund contribution subject to §217.35;

(iv) A securitization exposure subject to §§217.41 through 217.45; or

(v) An equity exposure (other than an equity OTC derivative contract) subject to §§217.51 through 217.53.

(2) The Board-regulated institution must multiply each exposure amount by the risk weight appropriate to the exposure based on the exposure type or counterparty, eligible guarantor, or financial collateral to determine the risk-weighted asset amount for each exposure.

(b) Total risk-weighted assets for general credit risk equals the sum of the risk-weighted asset amounts calculated under this section.

#### §217.32 General risk weights.

(a) *Sovereign exposures*—(1) *Exposures to the U.S. government.* (i) Notwithstanding any other requirement in this subpart, a Board-regulated institution

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must assign a zero percent risk weight to:

(A) An exposure to the U.S. government, its central bank, or a U.S. government agency; and

(B) The portion of an exposure that is directly and unconditionally guaranteed by the U.S. government, its central bank, or a U.S. government agency. This includes a deposit or other exposure, or the portion of a deposit or other exposure, that is insured or otherwise unconditionally guaranteed by the FDIC or National Credit Union Administration.

(ii) A Board-regulated institution must assign a 20 percent risk weight to the portion of an exposure that is conditionally guaranteed by the U.S. government, its central bank, or a U.S. government agency. This includes an exposure, or the portion of an exposure, that is conditionally guaranteed by the FDIC or National Credit Union Administration.

(2) *Other sovereign exposures.* In accordance with Table 1 to §217.32, a Board-regulated institution must assign a risk weight to a sovereign exposure based on the CRC applicable to the sovereign or the sovereign's OECD membership status if there is no CRC applicable to the sovereign.

TABLE 1 TO §217.32—RISK WEIGHTS FOR SOVEREIGN EXPOSURES

|                                   | Risk weight<br>(in percent) |
|-----------------------------------|-----------------------------|
| CRC:                              |                             |
| 0–1 .....                         | 0                           |
| 2 .....                           | 20                          |
| 3 .....                           | 50                          |
| 4–6 .....                         | 100                         |
| 7 .....                           | 150                         |
| OECD Member with No CRC .....     | 0                           |
| Non-OECD Member with No CRC ..... | 100                         |
| Sovereign Default .....           | 150                         |

(3) *Certain sovereign exposures.* Notwithstanding paragraph (a)(2) of this section, a Board-regulated institution may assign to a sovereign exposure a risk weight that is lower than the applicable risk weight in Table 1 to §217.32 if:

(i) The exposure is denominated in the sovereign's currency;

(ii) The Board-regulated institution has at least an equivalent amount of liabilities in that currency; and